

ValueLinks Glossary

Terms used in value chain development

Added-value

See “value added”.

Approche filière

One approach to study commodity chains. The francophone filière tradition was developed by researchers at the Institut National de la Recherche Agricole (INRA) and the Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD). (<http://www.ids.ac.uk/ids/global/pdfs/GCCs%20and%20filières.pdf>)

Benchmarking

The process of comparing own performance parameters with the performance parameters of businesses or value chains considered the leaders in the field. Parameters can refer to various aspects. Important benchmark parameters are productivity, cost of production or product quality. Benchmarking is used to identify gaps in the performance of the value chain promoted.

Broker

A broker is a market intermediary who brings buyers and sellers together and is paid a commission by either party.

Business environment / investment climate

Business environment means the broad legal, regulatory and infrastructure conditions under which enterprises operate in a country. These are conditions at the *macro level*. They include macroeconomic and political stability, an effective governance and judicial system in general, as well as the regulations specifically relevant for doing business, such as well-defined property (e.g. land and water) rights, business registration and employment regulations, financial institutions, the transport system, and the efficiency of administrative procedures. There are general conditions of the business environment cutting across many sub sectors, as well as conditions specific for each value chain.

Business linkages

VC operators relate to each other both horizontally (among enterprises at the same stage of the value chain, pursuing the same type of activity) as well as vertically (between suppliers and buyers of produce). Vertical business linkages can range from accidental market exchanges to a full coordination of activities regulated by contracts (see *market relationships*). Horizontal business linkages range from informal networks to associations and business membership organizations (BMO).

Business matchmaking

Business matchmaking is the activity to create and promote business contacts and sales opportunities of specific business groups or of the entire value chain community. It is a support service for the value chain.

Cluster

A cluster is a geographic concentration of enterprises which are closely connected, along a value chain or as a network settling around an important buyer or industrial company (e.g. *value chain actors* in the cut flower export business all located close to an international airport). A simple definition says: A cluster is a value chain that is concentrated at the same location.

Certification

Certification is a procedure by which a third party (the certifier or certification body) gives written assurance that a product, process or service conforms to specified requirements – a standard. Being certified is an asset for producers.

Commodity

Commodities are bulky (natural-resource based) product, that are internationally traded either as a raw product or after basic industrial processing. The most important agricultural commodities include grains (rice, wheat), green coffee, palm oil, cotton or white sugar. The value chains of commodities mostly are loosely integrated, although trade may be concentrated. In terms of increasing the value-added an interesting strategy is “decommodification”, that is the diversification of conventional commodities into high-value variants (e.g. specialty coffee, specialty rice, aromatic cocoa or organic cotton).

Competitiveness (determinants and indicators)

The performance of an economy results from a series of variables: At the *micro level*, competitiveness is determined by “hard” comparative advantages such as the location, the availability of primary resources and the cost of labour, as well as by “soft” conditions, e.g. the entrepreneurial competence.

Yet, competitiveness also is a function of *value chain* coordination and the existence of supporting agencies at the *meso level*. Finally, the *business enabling environment* determines the overall cost of business making. Taken together, competitiveness is expressed by measures indicating technical efficiency and profitability as well as innovation and investment rates.

Contract Farming

A form of production in which farmer and buyer enter into a contract in advance of the growing season for a specific quantity, quality and date of delivery of an agricultural output at a price or price formula fixed in advance. The contract provides the farmer an assured sale of the crop. Sometimes, the contract includes technical assistance, credit, services, or inputs from the purchaser (see *embedded service arrangement*).

(<http://www.bancomundial.org.mx/pdf/SaladePrensa/EstudiosRecientes/Lanpolfor/7.pdf>)

Embedded service arrangement

In an embedded service arrangement operational services are delivered in combination with a basic business transaction (sale of products or loans). The basic idea is to finance the service as part of the business transaction, e.g. linking technical advice to the sale of inputs. Embedded arrangement may include other business partners as the service providers, such as input dealers or processing companies, or professional service providers as third parties.

EurepGAP

EurepGAP is a private sector body that sets private voluntary standards for the certification of agricultural products. EurepGAP is a series of specific pre-farm-gate certification standards that have been developed by retailers from the European Union, in partnership of agricultural producers. (<http://www.eurepgap.org/Languages/English>).

Facilitator / facilitation

Facilitators are initiatives pursuing a public interest in economic development (such as the *pro-poor growth* goal). This includes government programmes for private sector development as well as development projects funded by international donors. Contrary to the *VC actors*, such programmes and projects are funded publicly (by tax money). They remain outsiders to the regular business process and restrict themselves to temporarily facilitating a chain *upgrading* strategy. Typical facilitation tasks include creating awareness, facilitating joint strategy building and action and the coordination of support activities.

Food safety / product safety

Safety means freedom from environmental and other contaminants and sources of toxicity (physical, chemical and/or biological) which are injurious to health.

Governance

See “value chain governance”.

Impact Model / Results framework

This is the sequence proceeding from ‘project outputs’ to ‘outcome’ and on to direct and indirect ‘impacts’. The sequence entails causal linkages (‘if-then relationships’). Synonyms are “results framework”, “results chain”, “impact chain” or “impact pathway”. The impact model is the theory of action of a project, i.e. it brings together the hypotheses about the results expected from taking action.

Impact hypothesis

Impact hypotheses are the anticipated ‘if-then relationships’ linking the stages in an impact model. The sequence of impact hypotheses tells the anticipated story of the project.

Interventions (to promote value chains)

Interventions are temporary actions of external *facilitators* aimed at mobilising and/or joining *value chain actors* and building their capacity thus promoting change in the value chain. The idea is that an external intervention triggers an internal change of the system, in this case the behaviour of VC actors.

Lead company

Lead companies are key traders or industrial companies assuming a coordination role within a *value chain*. Highly integrated value chains often depend on lead companies who are the main buyers of the produce (see *value chain governance*).

Leverage point

An element in a system, where a small intervention or change can yield large effects in the overall system.

Macro level

The macro level refers to the public agencies and institutions constituting the *business enabling environment*. Typically, the macro level of a *value chain* is made up of national, regional and local government, the judicial system and major providers of public utilities (especially roads and water supply). The macro level determines the general cost of doing business cutting across different value chains and *sectors* of the economy.

Markets / market relationships

A market is the interaction of demand and supply (buyers and sellers) of particular types of goods or services. The exchange rules differ depending on the character of the good traded (e.g. *commodities*, perishable products, investment goods or services). There are different forms of market relationships: The basic market transaction is a once-off purchase of a product displayed by a seller, e.g. in a traditional street market (so called arms-length market relationship in a “wet market”). Sophisticated forms of market relationships include order contracts or regular subcontracting.

Margin (profit margin or price mark-up):

The *gross (profit) margin* is the difference between “sales revenue” and “cost price”, expressed as percentage of the cost price or as discounted percentage of the sales price. The *net (profit) margin* is the same, excluding VAT (Value Added Tax).

Micro level

In a *value chain*, the micro level includes the *VC operators* and the *operational service providers* taken together.

Meso level

In a *value chain*, the meso level includes all chain-specific actors providing regular *support services* or representing the common interest of the *VC actors*. Functions at the meso level include, for example, public research and technology development, agreement on professional standards, promotional services, joint marketing or advocacy. They are taken by *support service providers*.

Operational services / operational service providers

Operational services are those services that either directly perform *value chain functions* on behalf of the *VC operators* or are directly related to them. Operational services therefore are business-to-business (B2B) services. They include value chain specific services as well as generic business services such as, for example, accounting services.

Product

This is a generic category comprising physical, tangible products as well as services sold to costumers. The value chain is defined by a product or group of products, e.g. a tomato value chain or a fresh vegetable value chain.

Productivity

The amount of output per unit of input, e.g. the quantity of a product produced per working hour or per hectare

Pro-poor growth (PPG)

Pro-poor growth is the most commonly quoted objective of *value chain promotion*. There is a relative and an absolute concept of pro-poor growth. The relative concept states that economic growth is pro-poor if poor people increase their incomes above the poverty line, even if their share in the national income does not improve (a positive growth rate for poor). The absolute concept states that growth is pro-poor, when the income of the poorest (e.g. of the lowest quintile in a population) increases at least equally or more than the average income. (such that inequality is reduced). PPG stresses the need to make the poor participate directly in the economic growth, and does not rely on social transfers.

Public-private partnership (PPP)

Whenever private companies share the public interest in economic development, public agencies may realize certain development activities jointly with a company. PPP denotes a joint project of government and a private enterprise to realize certain *upgrading* activities. An important criterion for a public agency engaging in a PPP is that an adequate proportion of the benefit accrues to the other *VC actors* or to the general public.

Sector / Sub-sector

The economy can be divided into sectors following different criteria. Here, the term “sector” is defined according to broad product *market* categories. These include, for example, the “agri-food sector”, “forestry”, the “apparel sector” or the “tourism sector”. Each sector comprises the companies operating in the respective market as well as the specific market rules. Sectors can be further broken down into sub-sectors by differentiating into specific product or service markets, e.g. “horticulture”, “non-timber forest products” or “ecotourism”. Further differentiating these markets leads to the definition of a *value chain*. However, there is no generally accepted classification of sectors, sub-sectors or value chains. In practice, terms often overlap. The term sector (or economic sector) is a higher-order term than sub-sector and aggregates several sub-sectors.

Services

Services are economic goods delivered by a service provider to a client. Services differ from physical products, because service delivery and consumption are closely interconnected. One important distinction is between private services delivered to private clients or to enterprises (business-to-business services), and public benefit services delivered to groups of people in their collective interest. In *value chains*, it is necessary to distinguish between *operational services* and *support services*. Another category is membership services provided to insiders of an organisation, e.g. a cooperative, association or board.

Standards

Standards are a means of defining and regulating product quality by specifying the characteristics which a product or the process of making it must have. This regards intrinsic as well as ethical attributes. Business linkages in value chains have to observe product safety standards, as well as product quality standards and ecological and social standards wherever applicable. Once standards have been formulated and agreed upon, they still have

to be implemented – and the compliance with standards verified. Operators fulfilling standards receive a certificate (see *certification*).

Support services / support service providers

Contrary to the *operational services*, support services do not directly support (or perform) the basic functions in a *value chain*. Instead, they refer to general investment and preparatory activities benefiting all or at least several *value chain operators* simultaneously. Support services therefore provide a collective good shared by the VC actors. Typical examples are the setting of professional standards, provision of sector-specific information, joint export marketing, the generation of generally applicable technical solutions, or political lobbying. Support services are often provided by business associations, chambers or specialized public institutes.

Supply chain / supply chain management

The basic concept of a supply chain is similar to the *value chain*. The difference is that the supply chain refers to sequence of (upstream) sourcing and (downstream) marketing functions of individual enterprises, mostly of *lead companies*. Therefore, supply chain management is a business management tool rather than a development concept. It is concerned with logistics rather than market development.

Transaction cost

Apart from the cost of production and marketing at each stage of the value chain, the market relationships between suppliers and buyers engender “transaction cost”. They include the cost of search for business partners, for seeking information and screening the market, and for negotiating, monitoring and enforcing contracts. High transaction costs often are the result of market inefficiencies, such as low market transparency, lacking grades and standards or deficiencies in the business environment. They can be brought down by organizing markets and by improving value chain coordination.

Upgrading / chain upgrading

The term upgrading denotes the development path of a *value chain*. Gary Gereffi distinguishes “product upgrading”, that is the innovation, diversification or improvement of the final product, and “process upgrading”, which is the improvement of production and distribution technology and logistics. These forms of upgrading improve overall efficiency. “Functional upgrading” means the shifting of value chain functions from one *VC operator* to another (e.g. shifting primary processing to farmers). It leads to a different distribution of *value added* across the stages of the value chain.

In the *ValueLinks* terminology upgrading implies activities in different fields of action, that can be summarized as ‘improving business linkages, associations, and partnerships’, ‘strengthening service supply and demand’ and ‘introducing standards and improving policies and the business environment of the chain’. Another aspect is the expansion of productive capacity which enhances the volume sold.

Upgrading strategy

An upgrading strategy is an agreement between chain actors on joint action to upgrade.

Value added

Value added is a measure for the value created in the economy. It is equivalent to the total value generated by the *operators* in the chain (chain revenue = final sales price * volume sold). The value added per unit of product is the difference between the price obtained by a *VC operator* and the price that the operator has paid for the inputs delivered by operators of the preceding stage of the value chain and the intermediate goods bought in from suppliers of inputs and services who are not regarded as part of the value chain. In short: “The worth that is added to a good or service at each stage of its production or distribution” (McCormick/Schmitz). Part of the additional value created remains in the chain (= value captured), another part is captured by suppliers external to the chain

Value capturing / value captured

The additional value added as a consequence of value chain upgrading that remains with value chain operators.

Value chain (VC)

A value chain is

- a *sequence of related business activities (functions)* from the provision of specific inputs for a particular product to primary production, transformation, marketing, and up to the final sale of the particular product to consumers (the functional view on a value chain).

- the *set of enterprises (operators)* performing these functions i.e. producers, processors, traders and distributors of a particular product. Enterprises are linked by a series of business transactions in which the product is passed on from primary producers to end consumers.

According to the sequence of functions and operators, value chains consist of a series of chain links (or stages).

Value chain governance

Governance refers to the way business activities in a value chain are *vertically coordinated*.

Following the terminology defined by Gary Gereffi, we can distinguish different forms of governance, of which the most important are *markets*, modular value chains, captive relationships and *vertical integration*. While in a modular value chain an independent supplier makes products according to buyer specifications, captive relations describe a form of governance, in which small suppliers depend on a much larger *lead company*.

Value chain map / value chain mapping

The value chain map is a visual representation (chart) of the *micro and meso levels* of the *value chain*. According to the definition of the value chain it consists of a functional map combined with a map of *VC actors*. Mapping can but does not necessarily include the *macro level* of a *value chain*.

Value chain operator

See VC operator.

Value chain promotion

Promoting a value chains means supporting its development by externally *facilitating a value chain upgrading strategy*.

Value creation / value created

The additional value added as a consequence of value chain upgrading.

VC actor

This term summarizes all individuals, enterprises and public agencies related to a *value chain*, in particular the *VC operators*, providers of *operational services* and the providers of *support services*. In a wider sense, certain government agencies at the *macro level* can also be seen as VC actors if they perform crucial functions in the *business environment* of the value chain in question.

VC operator

The enterprises performing the basic functions of a *value chain* are VC operators. Typical operators include farmers, small and medium enterprises, industrial companies, exporters, wholesalers and retailers. They have in common that they become owners of the (raw, semiprocessed or finished) product at one stage in the VC. Thus, there is a difference between operators and "*operational service providers*", the latter being subcontracted by the VC operators.

However, in a *service value chain* the VC operators include both the enterprise providing the service product to the final consumer (be it an individual client or a company) as well as other specialized providers of inputs and (secondary) services upstream.

VC supporter / support service provider

Value chain supporters provide *VC support services* and represent the common interests of the *VC actors*. They belong to the *meso level* of the value chain.

Vertical coordination / vertical integration

As value chains upgrade the vertical coordination between the different stages of the value chain increases. This means that relationships are being regulated through agreements and written contracts. This coordination function is often taken by a *lead company*. At the extreme, the relationship between suppliers and buyers is “integrated” to the extent that the production and marketing functions of a supplier are entirely controlled by the buying company (also see *value chain governance*)

Vision / visioning (for value chain development)

Value chain promotion needs a strategic perspective. The vision describes the aspired change of the value chain answering the question: How should the value chain in question look five years from now? It is very important to make sure that the vision is formulated and shared by the VC operators and supporters, so as to derive operational objectives and facilitate the coordination of *upgrading* activities.

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